

## INTERNATIONAL MILLING DIRECTORY 2006

### USA

#### *FEEDGRAINS - retreat from record harvests - but stocks large*

Larger sown areas, but above all, good weather, produced massive US maize and soyabean crops in 2004/05 - both easily beating previous all-time record highs. Crop analysts believe yields benefited particularly from a long cool, damp period in the early/mid growing season for these spring planted crops which were then finished under perfect warm and dry conditions in most areas.

At the start of the season, the burning question was what effect these surplus would have on prices. For maize, a near 300m tonnes harvest (versus 256m in 2003/4) faced demand of only 270m tonnes. Domestic US consumption was up by a healthy 13m tonnes, of which 9m was in the feed industry and the rest in industrial outlets - mainly the rapidly expanding fuel ethanol industry. But exports showed little growth prospect and actually ended up lower than in 2003/04 as larger sales to Far East Asia (aided by less Chinese export competition) were more than offset by a drop in business to the Near East/N African (heavier Argentine competition.).

Soyabeans also appeared to be heading for their largest surplus for many years, despite reviving US domestic crush and prospects to expand exports after a disappointing S American bean harvest in the previous spring.

With almost 30m tonnes of maize headed for surplus stock too, forecasts last autumn were pessimistic for prices. Some analysts at that time suggested these would have to plunge to the \$1.50's per bushel for corn (about \$59/tonne) and \$4.50 (\$165/t) for soyabeans (from around \$220 and \$550 respectively).

In the event, farmers - who had seen near \$10 beans and \$3.30 corn in the spring of 2004 - refused to let go of their crops at these low prices, hoarding record quantities in all sorts of makeshift as well as regular storage. By early 2005, this policy appeared to be paying off as prices began a recovery, which accelerated as speculators suddenly began to buy vast numbers of futures market contracts in an attempt to profit from a broader commodity price 'boom.'

When the boom was perceived to be based far more on surges in oil and metal rather than grain and oilseed prices, markets turned easier again - just as farmers began to plant their 2005 corn and soya crops. At the same time weather turned unfavourable with rain delayed planting in some areas and washed out fields in others. An unusually cold spell, with some record lows for April and May also got the corn/soya planting season off to a shaky start.

If that were not enough to contend with, heatwaves and droughts then began to develop across large swathes of the eastern Midwest. Prime soya and corn growing states like Illinois seemed threatened with disastrously low yields in many key-producing areas before rains began to alleviate the situation from mid-late summer on. On the other hand, western Midwest States generally had plentiful rain, ideal conditions and the promise of good/above trend yields.

As the Directory goes to press, crops seem to have emerged from this unusual mix of weather in far better shape than feared - if well down on the 2004/05 record results. A maize crop of around 260m tonnes, give or take 5-7m, is - with the massive stock overhang from 2004/05 - far more than needed to cover both demand from both US consumers and foreign buyers. Moreover, US feed demand is expected to drop in 2005/06 by a steep 10m tonnes on reduced animal numbers

and profitability (though that trough will probably even out into the second half of the season as cheaper feed costs help margins and start to stimulate demand again).

US exports are currently forecast 4m tonnes up - at a 7-year high of 50m tonnes, largely because of less competition from China and Argentina. While total demand for US maize will be above the crop estimate, the draw-down from stocks will still be relatively small, taking them from 53.6m tonnes (equal to about 20% of total demand), down to 48m (about 18%). Stock coverage thus remains more ample than in recent years - a pointer to fairly restrained maize feeding costs in the year ahead, both for US livestock producers and for foreign customers too.

Soya's outlook is more problematical, as the current crop forecast of 76m tonnes will not cover combined US consumption and exports of over 79m tonnes, taking stocks down to about 3 weeks supply cover by September 2006. Even before the current crop is harvested, that equation already begs a need for adequate plantings next spring - especially if the S American harvests under-perform for a third year running (see protein/soya section of the Directory).

Some analysts suggest are already forecasting a possible increase in US soyabean sowings for 2006 on the basis that recent record world fuel oil prices (which have also affected agro-chemical costs) may make fertiliser-hungry maize less attractive than more input-frugal oilseeds although relative prices and weather at planting time will, as always have the last word on the mix of crop areas.

Other US feedgrains showed mixed trends in the past season and prospects for the year ahead. Barley and sorghum areas both declined quite sharply in 2004/05 and were estimated lower again in 2005/06, as farmers shifted some of that land into more profitable soya and maize crops. Last year, both of these coarse grains were, like maize and soya, helped by good yields that kept barley output unchanged and actually saw sorghum advance by over 1m tonnes. Although barley yields are seen little changed this year, sorghum's will drop back, albeit by less than those of maize as this is a far more drought-resistant crop. Feed use of sorghum and barley rose in 2004/05 due to good supplies and more attractive prices but demand for both is expected to drop back in 2005/06 as crops retreat.

Overall, however, US feedgrain supplies plentiful, thanks to the huge carry-in stocks of maize and a relatively static trend in world import growth for feedgrains. This should, hopefully, help keep export fob costs down for foreign buyers.

### ***WHEAT - Top exporter role faces increasing competition***

While the 2004/05 US wheat crop fell by about 5m tonnes - mainly due to reduced acreage - export demand was down by a similar amount, leaving end-season stocks at a relatively comfortable 14.7m tonnes (about 13 weeks supply cover).

Several factors worked to lower foreign sales but the main one by far was rising competition for Near East and North African markets from much larger EU and FSU crops. The table below shows the marked effect on some of this region's biggest customers, like top world wheat buyer Egypt, where the US market share fell by 60%. . Export sales were also down to the EU, where the previous year's crop shortfall was followed by a record wheat harvest. Argentina also provided stiffer competition across a whole range of markets in Latin America, Africa and further afield while another large Australian harvest kept up the competitive pressure in Asian markets. Amid larger FSU harvests, the second largest EU crop on record, yet another big Australian crop and better quality Canadian wheat, US exports are currently expected to extend their long-term decline by a further 2m tonnes.

The slack export trend has weighed on US wheat markets through most of the past season and remains a talking point in early 2005/06. However, while US winter wheat area declined for 2005/06, spring wheat plantings rose and with yields more or less unchanged, the crop is expected to be close to last year's at just under 59m tonnes. With domestic US consumption in both flour and feeds fairly static, the lower exports will result in end stocks ((by next June 1) rising to a relatively burdensome level of over 17m tonnes - a figure that is already tending to weigh on prices.

Across the range of US wheat grades, there has been a shift in sowing and production away from soft red winter wheat - not only the type under most intense global competition from other suppliers - but the basis for the world's leading futures exchange and price barometer - the Chicago futures market. Instead, farmers have sown more hard red and, to a lesser extent, hard spring wheat, a grade more likely to win export trade. While this season's SRW output is down from 10.3m to just 8.7m tonnes, stocks from last year are larger, cushioning the impact on supply and, with this grade expected to take the brunt of the dip in total US exports, stocks could actually be larger at the close of the season than at the start - a pointer to price restraint.

Another issue as the Directory goes to press is quality of US wheat - across the board of grades - after some difficult wet harvest weather in some areas. While proteins and falling numbers have held up reasonably well there has been concern over levels of vomitoxin caused by scab disease - a classic result of rainy weather pre/during harvest. This does not appear a major issue for winter wheats but could be more of a problem for spring wheats. In general, two parts per million of vomitoxin is the maximum that can be handled by most millers to keep finished food products below the 1ppm threshold required by law for humans. Vomitoxin limits are 5 ppm in pig feed and 10 ppm in feed for ruminating beef, feedlot cattle and poultry. However, in all cases, analysts say there is plenty of leeway for food and feed millers to blend grain that doesn't meet these standards with vomitoxin-free wheat to achieve the required tolerances.

### *US corn customers (July-Jun)*

	1998/9	1999/0	2000/1	2001/2	2002/3	2003/4	2004/5	
Japan	14,672	15,561	14,367	14,114	15,326	14,470	15,428	
Mexico	5,503	4,783	5,554	5,337	4,984	5,233	5,811	
Taiwan	4,032	5,169	4,596	4,762	4,302	4,726	4,359	
Egypt	3,022	3,432	4,079	4,957	2,903	3,485	3,386	
S. Korea		5,550	3,972	2,625	2,241	518	2,269	2,911
Canada	775	977	2,363	3,528	4,310	2,173	2,478	
Colombia	1,506	1,708	1,592	1,757	1,595	1,689	1,946	
Syria	na	na	na	782	561	722	1,185	
Morocco		381	637	597	676	176	520	927
Algeria	909	971	1,327	1,372	883	1,325	926	
Dom. Rep	779	948	1,025	990	988	782	892	
Guatemala	361	425	452	595	477	470	650	
Costa Rica	360	413	507	456	517	555	610	
El Salvador	277	354	468	344	333	433	528	
Israel	376	639	792	781	325	1,165	474	
Venezuela	1,191	1,104	1,085	684	630	637	354	
Panama		na	na	na	243	239	298	296
Tunisia	380	460	569	724	192	567	262	
Peru	669	516	145	284	73	81	244	

Saudi	1,160	1,075	1,110	981	183	264	172
Turkey	704	891	592	818	752	707	112
Jamaica	na	na	na	240	231	241	206
Indonesia	35	195	543	309	-	177	90
Iran	-	551	204	81	-	64	-
Russia	245	646	15	102	-	32	25

REGIONAL

Far East Asia	25,192	25,731	22,345	21,759	20,169	21,872	22,931
N/Cent America	8,830	8,674	11,289	12,328	12,731	11,105	12,482
Africa	5,144	6,186	7,010	8,433	4,800	6,299	5,679
S America	4,113	4,196	3,099	3,004	2,565	2,762	2,951
Near East	2,904	4,474	3,774	4,308	1,944	3,362	2,518
Europe	346	169	101	72	80	160	35
FSU	245	646	115	113	-	32	25

*Main US wheat customers - (July/Jun)*

	1998/9	1999/0	2000/1	2001/2	2002/3	2003/4	2004/5	
Japan	3,065	3,213	3,034	2,997	3,083	3,232	2,831	
Mexico	1,772	1,826	1,987	2,914	2,430	2,888	2,757	
China	na	na	na	221	88	1,466	1,788	
Philippines	1,666	2,202	1,960	1,438	1,500	1,213	1,751	
Egypt	4,629	4,337	4,186	3,728	916	3,983	1,586	
S Korea		1,643	1,671	1,435	1,211	1,235	1,465	1,310
EU	1,435	1,349	1,321	2,269	1,165	1,525	1,117	
Taiwan	914	1,018	943	922	842	1,049	970	
Venezuela	664	427	604	446	540	792	810	
Colombia	601	700	629	537	737	734	772	
Yemen	395	601	794	592	569	541	647	
Peru	736	385	421	564	398	984	627	
Israel	825	889	675	612	404	669	474	
Thailand		297	289	353	363	402	450	425
Cuba	na	na	na	154	77	327	399	
Ethiopa		na	na	na	175	652	585	368
Iraq	na	na	na	-'	72	248	288	
S Africa		na	na	na	19	68	469	260
Algeria	477	652	417	217	182	481	239	
Indonesia	533	463	818	187	299	117	158	
Jordan	192	525	436	457	200	286	134	
FSU	703	1,260	446	245	123	219	114	
Bangladesh	748	528	295	214	109	145	78	
Brazil	na	na	na	199	656	369	55	
Morocco		208	398	449	152	62	402	28
Chile	na	na	na	97	247	252	20	

Tunisia	na	na	na	45	25	161	-
Sri Lanka	466	466	465	432	171	15	-
Pakistan		867	436	-	46	160	-